May 1990 Monthly Survey June 8, 1990

Surveys of Consumers

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NEAR TERM OUTLOOK REMAINS POSITIVE LONGER TERM PROSPECTS WEAKEN

Index Slips

The Index of Consumer Sentiment was 90.6 in the May 1990 survey. Although the May reading was below the 93.9 recorded one month earlier, it was nearly identical to the 90.7 recorded one year earlier.

Even after the small decline recorded in May, the overall level of consumer confidence remained favorable. Moreover, the recent changes in the Index reflect a continuation of the repeated small horizontal variation rather than a downward trend. The May reading of 90.6 is barely below the prior six month average of 91.5.

Among families with incomes of $30,000 or more, the Index slipped to 97.1 in May from 99.8 one month earlier and 100.6 one year earlier.

Long Term Prospects Weakens Expectations Index

The Index of Consumer Expectations, the component of the Leading Indicators Index, fell to 79.3 in May 1990 from 83.9 one month earlier, but was insignificantly below the 80.1 recorded one year earlier. The Current Conditions Index fell slightly to 108.1 in May from 109.4 in April, but remained above the year earlier reading of 107.1.

The decline in the Expectations Index was due to less favorable prospects for both personal finances and the long term outlook for the economy.

Personal Financial Prospects: Recede but Remain Positive

Consumers' evaluations of their own financial situation remained at positive levels in the May 1990 survey, although they did recede from the very favorable levels recorded one month earlier.

Among all families in the May 1990 survey, 43 percent reported that their financial situation had improved during the past year, just below the 18-month high of 46 percent recorded in April. This slippage was due to fewer reports of income gains. Reports of income increases fell to 29 percent in May, down from 34 percent in April. Importantly, the proportion of families that complained that rising prices had diminished their living standard fell to 11 percent in May, down from the recent high of 17 percent recorded three months earlier.

An improved financial situation during the year ahead was expected by 38 percent of all families in the May 1990 survey, down from the cyclical peak of 45 percent recorded in April. Nearly half of all families (48 percent) expected their financial situation to remain largely unchanged, considering changes in both incomes and prices. Just 12 percent of all families in the May 1990 survey expected their financial situation to worsen during the year ahead. An important component of the continued strength in these personal financial expectations was the expectation that the inflation rate would moderate through the balance of the year.

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Inflation Expectations Remain at Reduced Level

In the May 1990 survey, consumers expected the rate of inflation to average 4.6% during the year ahead, barely changed from the 4.5% recorded in April, but well below the 5.4% recorded at the start of 1990 and the 5.8% recorded in May of 1989.

Prospects for the Year Ahead: Continued Slow Growth Expansion

Although the recent sluggish performance of the national economy has been clearly reflected in consumer assessments, consumers do not expect the economy to sink into a recession during the year ahead. To be sure, very few expect a rebound to more robust growth levels. Rather, the majority expect more of the same slow growth during the year ahead.

More families reported that current business conditions had worsened rather than improved during the past year for the fourth consecutive month (41 versus 36 percent in the May survey). But rather than an accelerating decline, nearly six-in-ten consumers expected the performance of the national economy to remain largely unchanged during the year ahead. Overall, good times financially in the economy as a whole during the year ahead were expected by 47 percent of all families in the May 1990 survey, largely unchanged from the one month and one year earlier readings.

Unemployment Expectations

Prospects for continued slow growth in the near term have been accompanied by the expectations that the national unemployment rate would remain low, although slowly inching upward during the year ahead.

Half of all families (52 percent) expected the national unemployment rate to remain largely unchanged during the year ahead in May 1990 as well as in May 1989. Among the other half of consumers, increases rather than further declines in unemployment were more frequently expected, by a three-to-one margin. Increases in unemployment were expected by 37 percent of all families in May 1990, compared with 10 percent that expected declines.

Darkening Clouds on Distant Horizon

While consumers expected no recession during the year ahead, the same could not be said for the longer term. More consumers expected a recessionary downturn during the next five years in the May 1990 survey than since late 1987. And it was these weaker long term prospects that were the primary source of weakness in the May survey.

Among all families in the May 1990 survey, 49 percent expected bad times financially in the economy during the next five years. Although this was only marginally above the 47 percent recorded both one month and one year earlier, it was the highest proportion recorded since late 1987. In comparison, 32 percent expected good times financially over the longer term, down from 39 percent one month earlier, and the lowest reading since late 1987.

Interest Rate Expectations

Interest rates remain the most troublesome aspect of the economic outlook. In the May 1990 survey, 58 percent of all families expected interest rates to increase during the year ahead, up from 55 percent one month earlier and 45 percent at the start of the year.

Household Durables

Favorable attitudes toward buying conditions for appliances, furniture, and home electronic goods were held by 75 percent of all families in the May 1990 survey, just between the 78 percent recorded one month earlier and the 73 percent recorded one year earlier.

These very positive buying attitudes continue to be based on the availability of price discounts, but this advantage has decreased in recent months. While the availability of price discounts was reported more frequently in May 1990 than one year earlier (32 versus 27 percent), the proportion has steadily slipped since the start of the year (from 45 to 32 percent).

Lower Home Prices: Buyers are also Sellers

Favorable attitudes towards buying conditions for homes were held by 66 percent of all families in the May 1990 survey, down from 68 percent one month earlier. Across the nation as a whole, home buying attitudes remained positive, but substantially below the cyclical peak of 86 percent recorded in the Spring of 1986.

The availability of lower prices for homes was reported by 29 percent of all families in the May 1990 survey, tieing the all-time record first recorded two months earlier. Reports of lower home prices, however, were highly related to the region of residence in the May survey as shown below:

Region	Percent Mentioning Lower Home Prices
Northeast	40%
South	31%
North Central	24%
West	16%

That home prices are lower is certainly seen as an advantage for the buyer. Most home buyers, however, are also home sellers, and the price declines also represent a disadvantage. Since the question in the monthly surveys asks about buying conditions, the answers do not fully reflect the disadvantage of lower prices to sellers. This has consequently lessened the stimulative impact of these otherwise favorable attitudes, especially for the Northeast and Southern regions.

The current level of mortgage interest rates were viewed less positively in the May survey. The proportion of families that reported the availability of low mortgage interest rates fell to 17 percent in May from 25 percent one month earlier. The decline from the 1986 peak in favorable home buying attitudes has resulted almost entirely from less favorable perceptions of mortgage interest rates.

Vehicles

Favorable assessments of buying conditions for vehicles were made by 64 percent of all families in the May 1990 survey, between the 66 percent recorded one month earlier and the 63 percent recorded one year earlier. Overall, attitudes toward vehicle buying conditions have remained largely unchanged during the past two years: in 23 of the past 24 monthly surveys the proportion holding favorable attitudes has ranged from 60 to 66 percent.

The relative stability in vehicle buying attitudes has been accompanied by a shifting rationale, toward greater reliance on discounts on prices rather than on interest rates. In the May 1990 survey, 41 percent of all families mentioned the availability of price discounts, up from 29 percent one year earlier, while references to interest rate discounts fell to 12 from 23 percent.

As price discounts have become an expected part of the market place, their stimulative impact on sales has declined. Habituation to their availability means that larger discounts are now needed to stimulate sales to the same degree as in the past. At present, it is not so much that discounts can create a competitive advantage as that the absence of discounts can create a disadvantage.

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The May 1990 survey included 504 completed interviews conducted between May 1 and May 26, 1990.